

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2013-298-E - ORDER NO. 2021-32
JANUARY 15, 2021

IN RE: Application of Duke Energy Carolinas, LLC) ORDER APPROVING
for Approval of New Cost Recovery) REVISED DSM/EE
Mechanism and Portfolio of Demand-Side) MECHANISM
Management and Energy Efficiency Programs)

This matter comes before the Public Service Commission of South Carolina (“Commission”) on the Application of Duke Energy Carolinas, LLC (“DEC” or “the Company”) for approval of its revised cost recovery mechanism (“Mechanism”) for Demand-Side Management and Energy Efficiency (“DSM/EE”) Programs (“Application”). The Company filed the Application on June 26, 2020, pursuant to S.C. Code Ann. § 58-37-20.

The Commission’s Clerk’s Office instructed the Company to publish a Notice of Filing in newspapers of general circulation one time and provide proof of publication, with which the Company complied. The South Carolina Coastal Conservation League, Southern Alliance for Clean Energy, Sierra Club, the Natural Resources Defense League, Walmart Inc., and the South Carolina Office of Regulatory Staff are parties to this proceeding (collectively, the “Parties”).

On December 4, 2020, the Parties filed a Settlement Agreement that partially modified the Mechanism, as described below, and which, by its terms, represents a full resolution of all matters pertaining to the Application (“Settlement Agreement”). The Settlement Agreement is attached hereto as Order Exhibit No. 1.

A. Background & the Application

The Company's current cost recovery mechanism, approved in Order No. 2013-889, provides for the recovery of reasonable and prudent costs related to the Company's DSM and EE programs, as well as the recovery of program performance incentives and Net Lost Revenues. In addition, the current mechanism provides standards for existing and proposed DSM and EE programs and the criteria necessary for large commercial and industrial customers to "opt-out" of program participation.

The Company stated in its Application that the purpose of its filing was to revisit and update the following components of the Mechanism: the process for approval of new programs; certain Net Lost Revenues ("NLR") provisions; the Portfolio Performance Incentive and a new Program Return Incentive; and other Incentives and Penalties.

As related to the process for approval of new programs, DEC stated that it would utilize the program approval process consistent with the principles that have been applicable to Duke Energy Progress, LLC but which have not yet been formally incorporated into DEC's Mechanism. In evaluating potential DSM/EE Measures and Programs for selection and implementation, DEC will first perform a qualitative measure screening to ensure Measures are (1) commercially available and sufficiently mature; (2) applicable to the DEC service area demographics and climate; and (3) feasible for a utility DSM/EE Program. DEC will then further screen EE and DSM Measures for cost-effectiveness. DEC proposes to file any substantial modifications to Commission approved DSM/EE Programs with the Commission for its approval.

DEC also proposed modifications to the requirements associated with NLR. First, in order to recover estimated NLR associated with a pilot program or measure, DEC proposed that it must, in its application for program or measure approval, demonstrate (1) the program or measure is of

a type that is intended to be developed into a full-scale, Commission-approved program or measure; and (2) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it is ultimately proven to have been cost-effective, and is developed into a full-scale, commercialized program.

DEC further proposed to use the “decision tree” previously approved for use by Duke Energy Progress, LLC and included as Attachment B to Order No. 2015-596 in Docket No. 2015-163-E—attached to the Application as Appendix C—for determining what constitutes Net Found Revenues. Net Found Revenues will be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.

DEC proposed, as part of its Application, to collect a Portfolio Performance Incentive (“PPI”) for its DSM/EE portfolio for each Vintage Year, separable into Residential, Non-Residential DSM, and Non-Residential EE categories. While the Company is already eligible for a PPI under the existing Mechanism, DEC proposed to reduce the PPI from 11.5% to 10.60%, and to establish a Program Return Incentive (“PRI”). The proposed PPI will be based on the net dollar savings of DEC’s DSM/EE portfolio, as calculated using the UCT. The South Carolina retail jurisdictional and class portions of the system-basis net dollar savings will be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

DEC also proposed a PRI, which is an incentive to encourage DEC to pursue savings from existing and new low-income DSM/EE programs, and to maintain and increase the cost effectiveness of these programs. The percentage ultimately used to determine the PRI for each Vintage Year will be based on the Company’s ability to maintain or improve the cost effectiveness

of the PRI-eligible programs over and above that initially estimated for the Vintage Year. The PRI will be based on a percentage of the gross avoided costs of those programs eligible for the PRI, initially set at 10.6%. The South Carolina retail jurisdictional and class portions of the system- basis gross dollar savings will be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

In addition, DEC proposed that, if it achieves annual energy savings of 1.0% of the prior year's DEC system retail electricity sales in any year during the four-year 2022-2025 period, the Company would receive an additional incentive of \$100,000 for that year. Likewise, DEC had proposed that if it failed to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE Programs, the Company would reduce its EE revenue requirement by \$100,000.

B. Settlement Agreement

The Parties to this proceeding entered into a Settlement Agreement that consents to the establishment of the Mechanism as revised by the Application, subject to the following modification: the additional incentive of \$100,000 and penalty/revenue requirement reduction of \$100,000 referenced above, in paragraph 42 of the Application, and in section M of the Revised Mechanism (Appendix B to the Application) are stricken and will not apply. The Company nevertheless agreed in the Settlement Agreement to aggressively pursue DSM and EE savings to achieve the goal of energy savings of 1% of prior year retail sales including opted-out customers.

In the Settlement Agreement, the Parties also agreed that the 2021 DSM/EE cost recovery filing ("Rider Filing") will reflect the revisions to the Mechanism such that the projection of Vintage Year 2022 will reflect the updated Mechanism, and that any new EE and DSM programs or proposed modifications to existing programs filed on or after January 1, 2021, will comport with

the updated Mechanism such that any cost effectiveness screening or cost recovery in 2022 will reflect the updated Mechanism.

The Parties also agreed that the Settlement Agreement represented a full resolution of all matters pertaining to the Application, and therefore that pre-filed testimony and a hearing are not necessary in this case. Finally, the Parties agreed that the Company would submit any proposed changes to the Mechanism to the Commission for approval concurrently with the Company's annual DSM/EE rider filing in the year 2026.

C. Findings of Fact & Conclusions of Law

S.C. Code Ann. § 58-37-20 authorizes the Commission to

adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective, environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

We find that—subject to the modification provided for in the Settlement Agreement referenced above—the Mechanism presented in the Application, including its appendices, as modified by the Settlement Agreement, is just and reasonable, and is consistent with S.C. Code Ann. § 58-37-20. We also find that the Settlement Agreement is a just and reasonable resolution of the matters presented in the Application.

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement, along with its Settlement Agreement Exhibit No. 1, attached hereto as Order Exhibit No. 1, is approved as just and reasonable.
2. The Application for approval of the Mechanism, as modified by the Settlement Agreement, is approved as just and reasonable.
3. The Company shall submit to the Commission any proposed changes to the Mechanism for approval concurrently with the Company's annual DSM/EE rider filing in the year 2026.
4. This Order shall remain in full force and effect until further order of the Commission.

BY ORDER OF THE COMMISSION:



Florence P. Belser, Vice Chairman
Public Service Commission of
South Carolina

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2013-298-E

In Re:)	
)	
Application of Duke Energy Carolinas,)	
LLC for Approval of Revised Cost)	SETTLEMENT AGREEMENT
Recovery Mechanism for Demand-Side)	
Management and Energy Efficiency)	
Programs)	
)	

This Settlement Agreement (“Agreement”) is entered into by and between the South Carolina Office of Regulatory Staff (“ORS”), Duke Energy Carolinas, LLC (the “Company”), Walmart Inc., the South Carolina Coastal Conservation League, Southern Alliance for Clean Energy, Natural Resources Defense Council, and Sierra Club (collectively, the “Parties”).

WHEREAS, on June 26, 2020, the Company filed an application in the above-referenced proceeding for approval of its Revised Cost Recovery Mechanism (“Mechanism”) for Demand-Side Management (“DSM”) and Energy Efficiency (“EE”) Programs described therein (“Application”);

WHEREAS, the Company’s current cost recovery mechanism, approved in Order No. 2013-889, provides for recovery of reasonable and prudent costs related to its DSM and EE programs. The current mechanism also provides for the recovery of program performance incentives and Net Lost Revenues. In addition, the current mechanism provides standards for existing and proposed DSM and EE programs and criteria for industrial and large commercial customers to “opt-out” of program participation;

WHEREAS, the Application included an Appendix B that provides the complete Mechanism as amended by the Company's Application;

WHEREAS, the proposed revisions to the Mechanism do not affect the Commission-approved tariffs currently in place and revisions to those tariffs are not required;

WHEREAS, the Parties have varying positions regarding the issues in this matter and have engaged in discussions to determine whether an agreement on the issues in this matter would be in their best interests; and

WHEREAS, the Parties have determined that their interests and those of the public would be best served by reaching an agreement on these matters under the following terms, and the Parties agree as follows:

1. The Parties agree that the Company's Mechanism should be approved as proposed in the Application and its appendices—which is attached hereto as Settlement Agreement Exhibit No. 1—subject to the following modification: the additional incentive of \$100,000 and penalty/revenue requirement reduction of \$100,000 referenced in paragraph 42 of the Application and in section M of the Revised Mechanism (Appendix B to the Application) are stricken and will not apply. While no longer tied to an additional incentive, the Company will aggressively pursue DSM and EE savings to achieve the goal of annual energy savings of 1% of prior year retail electricity sales including opted-out customers.

2. The Parties agree that the 2021 DSM/EE cost recovery filing ("Rider Filing") will reflect the revisions to the Mechanism such that the projection of Vintage Year 2022 will reflect the updated Mechanism. Likewise, any new EE and DSM programs or proposed modifications to existing programs filed on or after January 1, 2021 will comport with the updated Mechanism such that any cost effectiveness screening or cost recovery in 2022 will reflect the updated Mechanism.

3. Inasmuch as this Agreement represents a full resolution of all matters pertaining to the Application, the Parties agree that pre-filed testimony and a hearing are not necessary in this case.

4. The Parties understand that this Mechanism may be revisited through additional filings with the Commission should a change in law or regulation occur relative to the Mechanism.

5. Consistent with the terms of the Mechanism, the Company will submit any proposed changes to the Mechanism to the Commission for approval concurrently with the Company's annual DSM/EE rider filing in the year 2026. The Mechanism will otherwise continue until terminated or modified pursuant to order of the Commission.

6. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code Ann. § 58-4-10(B), which reads in part as follows:

“public interest” means the concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes these settled upon terms serve the public interest as defined above.

7. The Parties agree that this Agreement is reasonable, is in the public interest, and is in accordance with current law and regulatory policy.

8. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the matters addressed in the Application. The Parties, including their agents, further agree that communications regarding the Agreement, either between the Parties or with non-signatories hereto, shall be supportive of the terms agreed to in this Agreement.

9. This Agreement contains the complete agreement between the Parties regarding the Application. There are no other terms or conditions to which the Parties have agreed. This

Agreement integrates all discussions among the Parties into the terms of this written document. The Parties agree that this Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will this Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding.

10. If the Commission should decline to approve this Agreement in its entirety, then any Party desiring to do so may withdraw from this Agreement without penalty, so long as the Party invoking this section for the purpose of withdrawing from the Agreement withdraws within 30 days of the Commission's order declining to approve the Agreement in its entirety.

11. This Agreement shall be interpreted according to South Carolina law.

12. This Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent companies, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

13. The Parties represent that the terms of this Agreement are based upon full and accurate information known as of the date this Agreement is executed. If, after execution, any Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Agreement is based, any Party may withdraw from the Agreement with written notice to the other Parties.

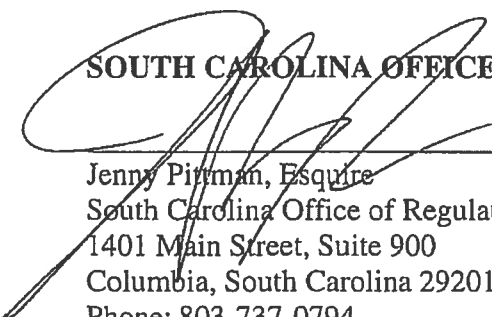
14. Each Party acknowledges its understanding and acceptance of, and consent and agreement to this Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be

signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Agreement.

Intending to be bound hereby, the Parties hereby execute the foregoing the Agreement
this 4th day of December, 2020.

[SIGNATURE PAGES FOLLOW]

SOUTH CAROLINA OFFICE OF REGULATORY STAFF



Jenny Pittman, Esquire
South Carolina Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, South Carolina 29201
Phone: 803-737-0794
Email: jpittman@ors.sc.gov

DUKE ENERGY CAROLINAS, LLC

Heather Shirley Smith

Heather Shirley Smith, Esquire
Duke Energy Carolinas, LLC
40 W. Broad Street, Suite 690
Greenville, South Carolina 29601
Phone: 864-370-5045
Email: Heather.Smith@duke-energy.com

WALMART INC.

s/ Stephanie Eaton

Stephanie U. (Roberts) Eaton, Esquire
Spilman Thomas & Battle, PLLC
110 Oakwood Drive, Suite 500
Winston-Salem, NC 27103
Phone: 336-631-1062
Email: seaton@spilmanlaw.com

**SOUTH CAROLINA COASTAL CONSERVATION LEAGUE, SOUTHERN ALLIANCE
FOR CLEAN ENERGY, NATURAL RESOURCES DEFENSE COUNCIL, AND SIERRA
CLUB**

s/Kate Lee Mixson

Kate Lee Mixson, Esquire
Southern Environmental Law Center
525 East Bay Street, Suite 200
Charleston, South Carolina 29403
Phone: 843-720-5270
Email: klee@selcsc.org

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2013-298-E

In re:)	
)	
Application of Duke Energy Carolinas, LLC)	APPLICATION OF DUKE ENERGY
for Approval of New Cost Recovery)	CAROLINAS, LLC FOR APPROVAL OF
Mechanism and Portfolio of Demand-Side)	REVISED COST RECOVERY
Management and Energy Efficiency Programs)	MECHANISM FOR DEMAND-SIDE
)	MANAGEMENT AND ENERGY
)	EFFICIENCY PROGRAMS
)	

Pursuant to S.C. Code Ann. § 58-37-20 and S.C. Code Ann. Regs. 103-823, Duke Energy Carolinas, LLC (“DEC” or the “Company”) hereby files with the Public Service Commission of South Carolina (the “Commission”) this Application for approval of its revised cost recovery mechanisms for Demand-Side Management and Energy Efficiency (“DSM/EE”) Programs to be effective beginning January 1, 2022. In support of this Application, the Company respectfully shows the Commission the following:

I. BACKGROUND

1. The correct name and post office address of DEC is Duke Energy Carolinas, LLC, Post Office 1321 (DEC 45A), Charlotte, North Carolina 28201-1006.

2. The name and addresses of the attorneys of the Company who are authorized to receive notices and communications with respect to this Application are:

Heather Shirley Smith
Deputy General Counsel
Duke Energy Corporation
40 West Broad Street, Suite 690
Greenville, South Carolina 29601
Telephone: 864.370.5045
heather.smith@duke-energy.com

and

Samuel J. Wellborn
Counsel for Duke Energy Carolinas, LLC
ROBINSON GRAY STEPP & LAFFITTE, LLC
1310 Gadsden Street
Post Office Box 11449
Columbia, South Carolina 29211
Telephone: 803.231.7829
swellborn@robinsongray.com

Copies of all pleadings, orders or correspondence in this proceeding should be served upon the attorneys listed above.

3. DEC is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the western portion of South Carolina and the central and western portions of North Carolina. DEC also sells electricity at wholesale to municipal, cooperative, and investor-owned electric utilities, and its wholesale sales are subject to FERC jurisdiction. DEC is a public utility under the laws of South Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this State. DEC is also authorized to transact business in the State of North Carolina and is a public utility under the laws of that state. Accordingly, its operations in North Carolina are subject to the jurisdiction of the North Carolina Utilities Commission.

4. The Company's current cost recovery mechanism (the "Mechanism"), approved in Order No. 2013-889, in this docket, provides for the recovery of reasonable and prudent costs related to its DSM and EE programs. This Mechanism also provides for the recovery of program performance incentives and Net Lost Revenues. In addition, the current Mechanism provides standards for existing and proposed DSM and EE programs and the criteria for industrial and large commercial customers to "opt-out" of program participation.

5. All current and proposed Programs and Mechanism terms are defined in Appendix A to this Application. Appendix B to this Application provides the complete Mechanism as amended by this Application. The Company's proposed revisions to the Mechanism do not affect the Commission-approved tariffs currently in place and revisions to those tariffs are not required.

6. By all accounts, the currently effective Mechanism and basic cost recovery framework is operating very well. The Company projects that by the end of 2020 the DSM and EE programs will have reduced annual electric usage by a cumulative 5,244,965 megawatt-hours and will have the capability to reduce the annual one-hour peak usage by 982 megawatts. These are considerable savings and may provide DEC the ability to avoid or defer the construction of any

required new generating facilities. Excluding opt-out customers, in 2018, DEC achieved savings equal to 1.7% of 2017 eligible retail sales; 2019 figures are still being finalized and are not yet available. In its 2019 Energy Efficiency in the Southeast report, the Southern Alliance for Clean Energy found that, of the 11 utilities studied, DEC has the highest savings in the region, thanks in part to the structure of the Mechanism which is both incentivizing to the Company and protective of customers.¹

II. PROPOSED REVISIONS TO COST RECOVERY MECHANISM

7. The purpose of this filing is to revisit and update the following components of the Mechanism:

- a. the process for approval of new programs;
- b. certain Net Lost Revenues provisions.
- c. the Portfolio Performance Incentive and a new Program Return Incentive; and
- d. other Incentives and Penalties.

8. Changes in the terms and conditions of the Mechanism will be applied prospectively only, to Vintage Years beginning on or after January 1, 2022. With respect to the recovery of reasonable and prudent Program Costs and Net Lost Revenues, except as may be explicitly provided for in the Mechanism, approved Programs and Measures will continue to be subject to the terms and conditions that were in effect when they were approved. With respect to the recovery of Portfolio Performance Incentives, except as may be explicitly provided for in the Mechanism, approved Programs and Measures will continue to be subject to the terms and conditions in effect in the Vintage Year that any applicable Measurement Unit was installed.

¹ Southern Alliance for Clean Energy, *Energy Efficiency in the Southeast: 2019 Annual Report* at 5 (2019), available at <https://cleanenergy.org/wp-content/uploads/2019-EE-in-SE-Final.pdf>.

A. Approval of Programs

9. DEC proposes to continue to utilize the program approval process consistent with the principles that have been applicable to Duke Energy Progress, but have not yet been formally incorporated into DEC's Mechanism. In evaluating potential DSM/EE Measures and Programs for selection and implementation, DEC will first perform a qualitative measure screening to ensure Measures are (1) commercially available and sufficiently mature; (2) applicable to the DEC service area demographics and climate; and (3) feasible for a utility DSM/EE Program. DEC will then further screen EE and DSM Measures for cost-effectiveness. For purposes of this screening, estimated incremental Evaluation, Measurement and Verification ("EM&V") costs attributable to the Measures will be included in the Measures' costs.

10. DEC proposes to file any substantial modifications to Commission approved DSM/EE Programs with the Commission for their approval. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEC's most recently filed DSM/EE Rider proceeding.

11. With the exception of Measures included in a Low-Income Program, or other Program in which Portfolio Performance Incentives ("PPI") are not requested that may potentially be filed with the Commission for approval, an EE or DSM Measure with a Utility Cost Test ("UCT") result less than 1.00 will not be considered further, unless the Measure can be bundled into an EE or DSM Program to enhance the overall cost-effectiveness of that Program. Measures under consideration for bundling, whether as part of a new Program or into an existing Program, should, unless otherwise approved by the Commission, be consistent with and related to the measure technologies, and/or delivery channels currently offered in the existing Program or to be otherwise offered in the new Program.

12. With the exception of Low-Income Programs or other programs otherwise explicitly identified at the time of their approval, all Programs submitted for approval will have a Program-level UCT result of greater than 1.00. For purposes of determining these test results, estimated incremental EM&V costs attributable to each Program will be included in the Program costs. DEC will include in its Integrated Resource Plan, revised as applicable in its annual report, certain information regarding the Measures and Programs that it evaluated but rejected. If a Program fails the economic screening described herein, DEC will determine if certain Measures can be removed from the Program to satisfy the criteria established in the proposed economic screening.

B. Net Lost Revenues (“NLR”)

13. DEC also proposes modest modifications to the requirements associated with NLR. First, in order to recover estimated NLR associated with a pilot program or measure, DEC proposes that it must, in its application for program or measure approval, demonstrate (1) the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure; and (2) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-up unless it is ultimately proven to have been cost-effective, and is developed into a full-scale, commercialized program.

14. DEC also proposes to use the “decision tree” previously approved for use by Duke Energy Progress, LLC and included as Attachment B to Order No. 2015-596 in Docket No. 2015-163-E—attached hereto as Appendix C—for determining what constitutes Net Found Revenues. DEC will closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and will identify and track all such activities with the aid of the “decision tree,” so that they may be evaluated by intervening parties and the Commission as

potential Net Found Revenues. Net Found Revenues will be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.

C. Portfolio Performance Incentive, Program Return Incentive, and Other Incentives

15. As part of this Application, DEC requests Commission approval to collect a Portfolio Performance Incentive (“PPI”) and Program Return Incentive (“PRI”), as each is applicable, for its DSM/EE portfolio for each Vintage Year, separable into Residential, Non-Residential DSM, and Non-Residential EE categories. The PPI and PRI, as applicable, will be subject to the limitations detailed below. Programs, Measures, and activities undertaken by DEC with the primary purpose of promoting general awareness of and education about EE and DSM activities—as well as research and development activities that are not directly associated with a Commission-approved EE or DSM Program—are ineligible to be included in the portfolio for purposes of the PPI or PRI calculations. While the Company is already eligible for a PPI under the existing Mechanism, DEC proposes to reduce the PPI from 11.5% to 10.60%, as has been proposed in North Carolina,² and to establish a PRI as described in more detail below.

16. Unless (a) the Commission approves DEC’s specific request that a pilot program or measure be eligible for PPI or PRI inclusion when DEC seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for PPI and PRI, and the benefits and costs associated with those pilots will not be factored into the calculation of the PPI or PRI.

17. The PPI and PRI for each Vintage Year will be incorporated into DEC’s DSM/EE billing factors, as appropriate.

² NCUC Docket No. E-7, Sub 1032.

18. In its annual filing, DEC will file an exhibit that indicates, for each Program or Measure for which it seeks a PPI or PRI, the annual projected and actual utility costs, number of Measurement Units installed, per kW and kWh impacts for each Measurement Unit, and per kW and kWh avoided costs for each Measurement Unit, consistent with the UCT, related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEC's annual filing for each Program or Measure that is included in an estimated or trued-up PPI or PRI calculation for any given Vintage Year.

19. Low-Income Programs and other specified societal programs or other programs explicitly approved with expected UCT results less than 1.00 will not be included in the portfolio for purposes of the PPI calculation until they demonstrate UCT results greater than 1.00. However, such programs will be eligible for the PRI, if so approved by the Commission, until they demonstrate UCT results greater than 1.00.

20. The proposed PPI will be based on the net dollar savings of DEC's DSM/EE portfolio, as calculated using the UCT. The South Carolina retail jurisdictional and class portions of the system-basis net dollar savings will be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

21. Unless the Commission determines otherwise in a DSM/EE Rider proceeding, and subject to the factors and limitations set forth elsewhere in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PPI initially to be recovered in a Vintage Year for the entire DSM/EE portfolio for a Vintage Year, excluding Programs not eligible for a PPI, will be equal to 10.60% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that Vintage Year, calculated per Program using the UCT, and excluding Low-Income Programs and other specified societal programs. The present value of

the estimated net dollar savings will be the difference between the present value of the annual lifetime avoided cost savings for Measurement Units projected to be installed in that Vintage Year and the present value of the annual lifetime program costs for those Measurement Units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year will be calculated by multiplying the number of each specific type of Measurement Unit projected to be installed in that Vintage Year by the most current estimates of each lifetime year's per installation kW and kWh savings and by the most current estimates of each lifetime year's per kW and kWh avoided costs. In calculating the forecasted initial PPI, it will be assumed that projections will be achieved.

22. Beginning with Vintage Year 2022, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up pursuant to this Mechanism, will be no greater than the dollar amount that produces a 19.50% margin over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI. Likewise, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up pursuant to this Mechanism, will be no less than the dollar amount that produces the following margins over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI:

- Vintage Year 2022: 10.00%;
- Vintage Year 2023: 6.00%;
- Vintage Year 2024: 2.50%; and
- Vintage Year 2025 and afterwards, until the next Mechanism review is completed: 2.50%.

23. When making its initial estimates of the PPI pursuant to this Mechanism, DEC will utilize the best and most accurate estimate of the margin and the resulting PPI percentage it can determine.

24. The PRI will be based on the gross avoided costs of those programs eligible for the PRI. The South Carolina retail jurisdictional and class portions of the system-basis gross dollar savings will be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

25. Unless the Commission determines otherwise in an annual DSM/EE Rider proceeding, and subject to the factors and limitations set forth in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PRI initially to be recovered for Low-Income Programs and other specified societal programs not eligible for a PPI will be a percentage, as determined pursuant to the above provisions, multiplied by the present value of the estimated gross dollar avoided cost savings associated with the applicable DSM/EE Programs installed in that Vintage Year, used in determination of the UCT. The present value of the estimated gross dollar savings will be determined in the same manner as used for Programs eligible for the PPI.

26. The percentage used to determine the estimated PRI for each Vintage Year will be 10.60%. This percentage will be multiplied by the present value of the estimated avoided costs associated with each PRI-eligible program installed in that Vintage Year. When making its initial estimates of the PRI, DEC will utilize the best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.

27. For the PPI and PRI for Vintage Years 2022 and afterwards, the program-specific per kW avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and PRI and any PPI or PRI true-up will be derived from the underlying resource plan,

production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved avoided costs.

28. The per kW avoided transmission and distribution (“T&D”) costs used to calculate net savings for a Vintage Year will be based on the study update at least every two years only if the study update results in a 20% change from the prior study’s avoided T&D costs.

29. Unless DEC and the Office of Regulatory Staff (“ORS”) agree otherwise, the Company will not be allowed to update its avoided capacity costs and avoided energy costs after filing its annual cost and incentive recovery application for purposes of determining the DSM/EE and Rider in that proceeding.

30. When DEC files for its annual DSM/EE cost recovery request, it will report all measurement and verification data, even if that data is not final, to assist the Commission and the ORS in their review and monitoring of the impacts of the DSM and EE Measures.

31. DEC bears the burden of proving all dollar savings and costs included in calculating the PPI and PRI. DEC will be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.

32. The PPI and PRI for each Vintage Year will ultimately be based on net dollar savings (PPI) or gross dollar savings (PRI), as verified by the EM&V process and approved by the Commission. The PPI and PRI for each Vintage Year will be trued-up as described below.

33. As part of the DSM/EE Rider approved in each annual cost and incentive recovery proceeding, DEC will be allowed to recover an appropriately and reasonably estimated PPI and PRI (subject to the limitations set forth in this Mechanism) associated with the Vintage year covered by the rate period in which the DSM/EE Rider is to be in effect.

34. The PPI and PRI related to any given Vintage Year will be trued-up through the DSM/EE Rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year, as determined pursuant to the EM&V Agreement. The true-up will be based on verified savings and will be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

35. The amount of the PPI ultimately to be recovered for a given Vintage Year will be based on the present value of the actual net dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year (excluding Low-Income Programs and other specified societal programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings will be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year will be calculated by multiplying the number of each specific type of Measurement Unit installed in that Vintage Year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the Vintage Year. The ultimate PPI will also be subject to the additional factors and limitations set forth in this Mechanism. DEC will make all reasonable efforts to ensure that all vintages are fully trued up within 24 months of the vintage program year.

36. The amount of the PRI ultimately to be recovered for a given Vintage Year will be based on the present value of the actual gross dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year that is eligible for the PRI. Furthermore, the percentage used to determine the final PRI for each Vintage Year will be based on the Company's ability to maintain or improve the cost effectiveness of the PRI-eligible programs. The PRI percentage for each PRI-eligible Program will be determined by comparing (1) the projected UCT ratio for the portfolio of PRI-eligible Programs for the Vintage Year at the time of the Company's DSM Rider filing first estimating that projected Vintage Year UCT ratio to (2) the actual UCT ratio achieved for that portfolio of PRI-eligible Programs as that Vintage Year is trued up in future filings. The ratio ($UCT_{\text{actual}} / UCT_{\text{estimate}}$) will then be multiplied by 10.60% to determine the PRI percentage that will be applied to the actual avoided costs generated by each approved PRI-eligible program. At no time will the PRI percentage utilized fall below 2.65% or rise above 13.25%. The present value of the estimated gross dollar savings will be determined in the same manner as used for determining the recovery of the ultimate PPI. The ultimate PRI will also be subject to the additional factors and limitations set forth in this Mechanism. The Company will make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.

37. A program's eligibility for a PPI or PRI will be determined at the time of filing the projection for a Vintage Year and will continue to be eligible for the same incentive at the time of the Vintage Year true-up.

38. If a program previously eligible for a PRI becomes cost effective under the UCT, it will no longer be eligible to receive a PRI in the next projected Vintage Year for the program but will be eligible for the PPI.

39. The combined total of all Vintage Year true-ups of the PPI and PRI calculated in a given year's DSM/EE cost recovery proceeding will be incorporated into the appropriate DSM/EE billing factor.

40. The PRI will be determined using the avoided costs used in the calculation of the UCT. PRI amounts will be assigned to the Program in which they were earned.

41. The PPI for each Vintage Year will be allocated to DSM and EE programs in proportion to the present value net dollar savings of each program for the vintage year, as calculated pursuant to the method described herein.

42. As further incentive to motivate the Company to aggressively pursue savings from cost-effective EE and DSM Programs, DEC proposes that if it achieves annual energy savings of 1.0% of the prior year's DEC system retail electricity sales in any year during the four-year 2022-2025 period, the Company will receive an additional incentive of \$100,000.00 for that year. During that same period, if the Company fails to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE Programs, the Company will reduce its EE revenue requirement by \$100,000.00. Verification of these annual energy savings will be obtained through the EM&V process discussed elsewhere in this Mechanism.

III. CONCLUSION AND REQUEST FOR APPROVAL

WHEREFORE, Duke Energy Carolinas, LLC respectfully requests that pursuant to this Application and the provisions of S.C. Code Ann. § 58-37-20 and S.C. Code Ann. Regs. 103-823, the Commission approve:

- (1) The Company's request to update and revise the Mechanism as discussed herein;
- (2) The Company's request that Appendices A, B, and C be approved by the Commission;

(3) The Company's request to recover all reasonable and prudent costs incurred for adopting and implementing DSM and EE Measures and the additional principles related to such recovery set forth herein;

(4) The Company's request to establish the terms, conditions, and methodology to be used for the recovery of Net Lost Revenues, a PPI, a PRI, and an additional incentive to encourage kWh savings achievements, as set forth herein; and

(5) Any other relief deemed just and reasonable by the Commission.

Respectfully submitted this 26th day of June 2020.

Heather Shirley Smith
Deputy General Counsel
Duke Energy Corporation
40 West Broad Street, Suite 690
Greenville, South Carolina 29601
Telephone 864.370.5045
heather.smith@duke-energy.com

s/ Samuel J. Wellborn
Samuel J. Wellborn
Counsel for Duke Energy Carolinas, LLC
ROBINSON GRAY STEPP & LAFFITTE, LLC
1310 Gadsden Street
Post Office Box 11449
Columbia, South Carolina 29211
Telephone: 803.231.7829
swellborn@robinsongray.com

Appendix A

Definitions

Common Costs are administrative and general, or other, costs that are not attributable or directly assignable to specific demand-side management (“DSM”) or energy efficiency (“EE”) Programs but are necessary to design, implement, and operate the Programs collectively.

Costs include program costs (including those of pilot programs approved by the Commission for inclusion in the Mechanism), common costs, and any other costs approved by the Commission for inclusion in the Mechanism. *Costs* include only those expenditures appropriately allocable to the South Carolina retail jurisdiction.

Incremental Program Costs are utility-incurred costs directly attributable and expended solely for a specific DSM or EE Program, and include all appropriate capital costs (cost of capital, depreciation expenses, property taxes, and other associated costs found reasonable by the Commission), implementation costs, incentive payments to Program participants, other operations and maintenance costs, EM&V costs, and administrative and general costs incurred specifically for the Program, net of any grants, tax credits, or other reductions in cost received by the utility from outside parties and specifically related to the Program.

Low-Income Programs or Low-Income Measures are DSM or EE Programs, or DSM or EE Measures, approved by the Commission to be provided specifically to low-income customers.

Measure means, with respect to EE, an “energy efficiency measure,” and, with respect to DSM, an activity, initiative, or Program change, implemented on or after January 1, 2009. DSM includes, but is not limited to, load management, electric system equipment and operating controls, direct load control, and interruptible load.

Measurement Unit means the basic unit that is used to measure and track the (a) incurred costs; (b) Net Lost Revenues (“NLR”); and (c) kilowatt (“Kw”), kilowatt-hour (“kWh”), and

dollar savings, net of net-gross (“NTG”) effects for DSM or EE Measures installed in each Vintage Year. A Measurement Unit may consist of an individual Measure or bundle of Measures. Measurement units will be requested by DEC and established by the Commission for each Program in the Program approval process and will be subject to modification by the Commission when appropriate. If Measurement Units have not been established for a particular Program, the Measurement Units for that Program will be the individual Measures, unless the Commission determines otherwise.

Measurement Unit’s Life means the estimated number of years that equipment or customer treatment associated with a Measurement Unit will operate if properly maintained, or activities (services or customer behavior) associated with the Measurement Unit will continue to be cost-effective and produce energy (kWh) or peak demand (kW) savings, unless the Commission determines otherwise.

Net Found Revenues means any increases in revenues resulting from any new activity by DEC’s public utility operations that causes a customer to increase demand or energy consumption net of any activities undertaken by the Company outside of its approved energy efficiency programs that decreases customer demand or energy consumption. The dollar value of Net Found Revenues will be determined in a manner consistent with the determination of the dollar value of Net Lost Revenues provided below. In determining which activities produce Net Found Revenues, the “Decision Tree” attached to the Mechanism as Appendix C will be applied. Net Found Revenues may be reduced, if such reduction is approved as reasonable and appropriate by the Commission, by a decrease in revenues resulting from an activity by DEC’s public utility operations that causes a customer to reduce demand or energy consumption (negative found revenues). To be approved, it must be demonstrated that the activity producing the negative found

revenues reduces the profitability of the Company. Additionally, the total amount of Net Found Revenues for a given vintage year will not be reduced to a level below zero by the inclusion of negative found revenues.

Net Lost Revenues means DEC's revenue losses due to new DSM or EE Measures, net of fuel costs and non-fuel variable operating and maintenance expenses avoided at the time of the kilowatt-hour sale(s) lost due to the DSM or EE Measures,³ or in the case of purchased power, in the applicable billing period incurred by DEC, public utility operations as the result of a new DSM or EE Measure. PPIs shall not be considered in the calculation of Net Lost Revenues or NLR recovery.

Net-to-gross ("NTG") factor means an adjustment factor used to compute the net kW/kWh savings by accounting for behavioral effects, including, but not limited to, free ridership, moral hazard, free drivers, and spillover.

Portfolio Performance Incentive ("PPI") means a utility incentive payment to DEC as a bonus or reward for adopting and implementing new EE or DSM Measures and/or Programs. The PPI is based on the sharing of avoided cost savings, net of Program Costs, achieved by those DSM and EE Programs in the aggregate. Such Program Costs will be adjusted as discussed elsewhere in the Mechanism. The PPI is also subject to certain limitations as further set forth in the Mechanism. PPI excludes Net Lost Revenues.

Program Return Incentive ("PRI") means a utility incentive payment to DEC for adopting and implementing programs that fail to pass the Utility Cost Test but are approved by the Commission due to the societal benefit they provide, such as low-income programs. For these

³ Avoided fuel costs would technically be measured at the marginal cost of fuel avoided at the time of the lost kWh sale. However, because fuel costs themselves are subject to true-up, it is administratively easier and results in the same overall revenue requirement outcome to measure fuel costs associated with Net Lost Revenues at the then-current approved prospective fuel and fuel-related cost factor.

types of programs, the PRI will be based on a percentage of the NPV of the avoided costs savings achieved by those DSM and EE Programs. The PRI is subject to certain additional factors and limitations, as further set forth in the Mechanism.

Program means one or more new DSM or EE Measures with similar objectives that have been consolidated for purposes of delivery, administration, and cost recovery, and that have been adopted on or after January 1, 2014, including subsequent changes and modifications.

Program Costs are costs that are directly attributable or reasonably and appropriately allocable to specific DSM or EE Programs or groups of Programs (for purposes of setting the DSM/EE Rider), and include all appropriate and reasonable Incremental Program Costs, and reasonably assigned or allocated administrative and general expenses and other Common Costs, net of any reasonably assigned or allocated grants, tax credits, Program Cost adjustments as discussed elsewhere in the Mechanism, or other reductions in cost received by the utility from outside parties.

Total Resource Cost ("TRC") test means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs of the Program or portfolio, including both the participants' costs and the utility's costs (excluding incentives paid by the utility to or on behalf of participants). The benefits for the TRC test are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs will be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program). Non-energy benefits as approved for use by the Commission may be considered in the determination of TRC results. The costs for the TRC test

are the incremental net Program or portfolio costs incurred by the utility and the participants, plus the increased supply costs for any periods in which load is increased. All costs of equipment, installation, operation and maintenance (O&M), removal (less salvage value), and administration, no matter who pays for them, are included in this test. However, Common Costs will not be included in a Program-level TRC test used for program approval purposes but will be included in a portfolio-level TRC test. Any grants, tax credits, or other reductions in cost received by the utility or participants from outside parties and specifically related to the Program or portfolio, as applicable, are considered a reduction to costs in this test.

Utility Cost Test (“UCT”) means a cost-effectiveness test that measures the net costs of a DSM or EE Program or portfolio as a resource option based on the incremental costs incurred by the utility (including incentive costs paid by the utility to or on behalf of participants) and excluding any net costs incurred by the participants. The benefits for the UCT are the avoided supply costs (i.e., the reduction in generation capacity costs, transmission and distribution capacity costs, and energy costs caused by a load reduction), valued at marginal cost for the periods when there is a load reduction. The avoided supply costs will be calculated using net Program or portfolio savings (i.e., savings net of reductions in energy use (NTG impacts) that would have happened even in the absence of the Program or portfolio). The costs for the UCT are the net Program or portfolio Costs incurred by the utility and the increased supply costs for any period in which load is increased. Utility costs include initial and annual costs, such as the cost of utility equipment, O&M, installation, Program or portfolio administration, incentives paid to or on behalf of participants, and participant dropout and removal of equipment (less salvage value). However, Common Costs will not be included in a Program-level UCT test used for program approval purposes but will be included in a portfolio-level UCT test. Any grants, tax credits, or other

reductions in cost received by the utility from outside parties and specifically related to the Program are considered a reduction to costs in this test.

Vintage Year means an identified 12-month period in which a specific DSM or EE Measure is installed for an individual participant or group of participants.

Appendix B

Revised Mechanism

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A. Application for Approval of Programs

In evaluating potential DSM/EE Measures and Programs for selection and implementation, DEC will first perform a qualitative measure screening to ensure Measures are

- (a) commercially available and sufficiently mature,
- (b) applicable to the DEC service area demographics and climate, and
- (c) feasible for a utility DSM/EE Program.

DEC will then further screen EE and DSM Measures for cost-effectiveness. For purposes of this screening, estimated incremental EM&V costs attributable to the Measures will be included in the Measures' costs. With the exception of Measures included in a Low-Income Program, or other Program in which PPI incentives are not requested that may potentially be filed with the Commission for approval, an EE or DSM Measure with a Utility Cost Test (UCT) result less than 1.0 will not be considered further, unless the Measure can be bundled into an EE or DSM Program to enhance the overall cost-effectiveness of that Program. Measures under consideration for bundling, whether as part of a new Program or into an existing Program, should, unless otherwise approved by the Commission, be consistent with and related to the measure technologies, and/or delivery channels currently offered in the existing Program or to be otherwise offered in the new Program.

With the exception of Low-Income Programs or other programs explicitly identified at the time of the application for their approval, all Programs submitted for approval will have a Program-level UCT result greater than 1.00. For purposes of determining these test results, estimated incremental EM&V costs attributable to each Program will be included in the Program costs. DEC will include in its Integrated Resource Plan, revised as applicable in its annual report, certain information regarding the Measures and Programs that it evaluated but rejected.

If a Program fails the economic screening described herein, DEC will determine if certain Measures can be removed from the Program to satisfy the criteria established in the proposed economic screening.

DEC will provide its Stakeholder Collaborative (“Collaborative”) with information relating to Programs and Measures either currently being considered or planned for future consideration. DEC will also seek suggestions from its Collaborative for additional Programs and Measures for its future consideration.

DEC will, in its filings for approval of Measures and Programs, describe the industry-accepted methods to be used to collect and analyze data; measure and analyze Program participation; and evaluate, measure, verify, and validate the energy and peak demand savings. In its filings, DEC will also provide a schedule for reporting the results of this EM&V process to the Commission. The EM&V process description should describe not only the methodologies used to produce the impact estimates utilized, but also any methodologies the Company considered and rejected. Additionally, where known, DEC will identify the independent third party it plans to use for purposes of EM&V and include an estimate of all third-party costs in its filing. If not known at the time of filing for approval, the information will be provided at the time of DEC’s next annual rider filing.

B. Program Management

In each annual DSM/EE cost recovery filing, DEC will (a) perform prospective cost-effectiveness test evaluations for each of its approved DSM and EE Programs, (b) perform prospective aggregated portfolio-level cost-effectiveness test evaluations for its approved DSM/EE Programs (including any assigned or allocated administrative and general or other common costs), and (c) include these prospective cost-effectiveness test results in its DSM/EE rider application.

DEC will seek to leverage available state and federal funds to operate effective efficiency Programs. Its application for such funds will be transparent with respect to the cost, operation, and profitability of Programs operated with those funds in a manner consistent with its authorized revenue recovery Mechanism. The Company asserts that use of such funds helps offset the participant's project costs and is supplemental to DEC's incentives to participants. As such, these funds will not change the impacts or Program- or portfolio-level cost-effectiveness of DEC's Programs as calculated using the UCT. Further, the amount of avoided costs recognized by the Company will not be reduced if participants also use state or federal funds to offset any portion of their project costs.

C. Program Modifications

DEC will file any substantial modifications to Commission-approved DSM/EE Programs with the Commission for its approval. Modifications filed with the Commission for approval will be evaluated under the same guidelines and parameters used in DEC's most recently filed DSM/EE rider proceeding.

D. Stakeholder Collaborative

DEC will conduct periodic collaborative stakeholder meetings for the purpose of collaborating on new Program ideas, reviewing modifications to existing Programs, ensuring an accurate public understanding of the Programs and funding, reviewing the EM&V process and results, giving periodic status reports on Program performance, helping to set EM&V priorities, providing recommendations toward DEC's submission of applications to revise or extend Programs and rate structures, and guiding efforts to expand cost-effective Programs for low-income customers.

The Carolinas EE Collaborative is an advisory group made up of interested stakeholders from across North and South Carolina representing a wide array of customer groups and interests

related to energy efficiency and demand response. The Collaborative should serve as an open forum for the sharing of information and discussion of topics related to energy efficiency including program design and development, program evaluation, regulatory and other market conditions that will impact program performance, specific issues or topics as requested by the North and South Carolina Utilities Commissions in orders regarding DSM and EE matters, and other topics or issues to achieve the desired demand and energy savings. A third party may facilitate the discussions. The Collaborative will continue to determine its own rules of operation, including the process for setting the agendas and activities of the group, consistent with these terms. Members agree to participate in the advisory group in good faith consistent with mutually-agreed upon rules of participation. Meetings are open to additional parties who agree to the participation rules.

DEC will provide information related to the development of EE and DSM to stakeholders in a transparent manner. The Company agrees to disclose Program-related data at a level of detail similar to that which it has disclosed in other states or as disclosed by other regulated utilities in the Carolinas. The Company will share all aspects of the development and evaluation of Programs, including the EM&V process.

At its discretion, under the new plan, the Company may require confidentiality agreements with members who wish to review certain information, including confidential data or calculations that could be used to determine the data. According to DEC, disclosure of such information would harm DEC competitively and could result in financial harm to its customers. Participation in the advisory group will not preclude any party from participating in any Commission proceedings.

E. Evaluation, Measurement and Verification

DEC will conduct the EM&V of Programs using a nationally-recognized protocol to ensure that Programs remain cost-effective. EM&V of Programs will be conducted by an independent

third-party. EM&V protocol may be modified with approval of the Commission to reflect the evolution of best practices.

EM&V will also include updates of any net-to-gross (“NTG”) factors related to previous NTG estimates for Programs and Measures. All the updated information will be used in evaluating the continued cost-effectiveness of existing Programs and portfolio. Updates to NTG estimates will be applied consistent with the application of EM&V results, but updates to NTG estimates will not be applied retrospectively to Measures that have already been installed or Programs that have already been completed. If it becomes apparent during the implementation of a Program that NTG factors are substantially different than anticipated, the Company will file appropriate Program adjustments with the Commission.

F. Opt-Out Eligibility Requirement for Industrial Customers and Certain Commercial Customers

DEC notes that commercial customers with annual consumption of 1,000,000 kWh or greater in the prior calendar year and all industrial customers that implement or will implement alternative DSM/EE Measures may elect not to participate in any utility-offered DSM/EE Measures and, after written notification to the utility, will not be subject to the DSM/EE rider. For purposes of application of this option, a customer is defined to be a metered account billed under a single application of a Company rate tariff. For commercial accounts, once one account meets the opt-out eligibility requirement, all other accounts billed to the same entity with lesser annual usage located on the same or contiguous properties are also eligible to opt-out of the DSM/EE rider.

Since these rates are included in the rate tariff charges, customers electing this option will receive a DSM and/or EE Credit on their monthly bill statement. Opt-out eligible customers that

have received DSM/EE Program incentives will be subject to the applicable DSM/EE rider billings for a period of no less than 36 months.

Eligible non-residential customers may opt out of either or both of the DSM and EE categories of Programs as well as opt back into either or both. Eligible non-residential customers may opt out of either or both of the DSM and EE categories of Programs as well as opt into either or both during the annual election period of November 1 through December 31. Customers who elect to opt out during the two-month annual enrollment period immediately prior may elect to opt in during the first 5 business days of March each calendar year. Any customer choosing to opt in during the March window would be back-billed for the rider amount that they would have paid had the chosen to participate during the November/December enrollment period.

Any non-residential customer that elects to opt out and notifies the Company will, after the date of notification, be exempt from any annual rider amounts related to the vintage in which the customer opted out. If a customer participates in any vintage of programs, the customer is subject to the true-ups for any vintage of programs in which the customer participated, and is obligated to pay any rider amounts associated with lost revenues for each vintage of efficiency programs in which the customer participated.

G. Procedural Matters and General Structure of Riders

The rate period for each proposed DSM/EE Rider will be the next upcoming calendar year at the time of the filing of DEC's annual DSM/EE rider application. The test period used in the development of the DSM/EE Rider will be the recently concluded calendar year at the time of the application.

For purposes of measuring the cost-effectiveness of Programs and for calculation of the PPI and PRI, a Vintage Year will be equivalent to a calendar year.

The Company's annual filing date for its DSM/EE rider application, supporting testimony, and exhibits will be no later than March 1 of each calendar year. If deemed necessary, a hearing to consider the proposed DSM/EE riders proposed by DEC will be held not less than 90 days after the filing date of the Company's application, supporting testimony, and exhibits.

The Company's DSM/EE riders will be calculated and charged to customers based on the annual revenue requirements associated with DSM and EE Programs. Separate DSM/EE rates will be calculated for the Residential customer class and the Non-Residential customer classes.

One integrated (prospective) DSM/EE rider will be calculated for the Residential class to be effective each rate period. The integrated Residential class DSM/EE rider will include all true ups for each Vintage Year appropriately considered in each proceeding.

Separate DSM and EE billing factors will be available to Non-Residential opt-out-eligible customers. Additionally, the Non-Residential DSM and EE billing factors will be appropriately considered in each proceeding, so that the factors can be appropriately charged to Non-Residential opt-out eligible customers. For purposes of normalizing or forecasting kWh sales for its annual DSM/EE rider filing, DEC will calculate customer growth, weather normalization, and other applicable adjustments on the basis of the test period and/or rate period for each annual filing, as applicable.

H. Allocation Methodologies

Unless the Commission deems otherwise in a DSM/EE Rider proceeding:

- (a) The Program Costs of an approved DSM or EE Program will be allocated to the South Carolina and North Carolina retail jurisdictions and will only be recovered from those customer classes to which the Program is targeted.
- (b) No Program Costs of any approved DSM or EE Program will be allocated to the wholesale jurisdiction.

- (c) For EE Programs, the costs of each Program will be allocated based on the annual energy requirements of South Carolina and North Carolina retail customers (at the generator), as reflected in the annual cost of service studies.
- (d) For DSM Programs, the aggregated costs of DSM Programs will be allocated based on the annual summer coincident peak demand of South Carolina and North Carolina retail customers, as reflected in the annual cost of service studies.
- (e) The allocation factors and inputs used to allocate the estimated rate period costs of DSM and EE Programs will be those drawn from the most recently filed cost of service study at the time the annual cost recovery filing is made. The allocations of costs will be trued up at the time that finalized and trued-up costs for a given test period are initially passed through the DSM/EE rider, using the most recently filed cost of service study at the time the filing is made (but for no later year than the period being trued up). For subsequent true-ups of that period, the cost of service study used will be the same as that used for the initial true-up.
- (f) For purposes of recovery through the DSM/EE rider, the Company's South Carolina retail jurisdictional costs for approved DSM and EE Programs and Measures will be assigned or allocated to South Carolina retail customer classes by directly assigning the South Carolina retail jurisdictional costs to the customer group to which the Program is offered. The process of estimating and truing up the class assignments and allocations will be the same as practiced for jurisdictional allocations.

I. Cost Recovery

Subject to the specific provisions and/or modifications set forth in the Application, DEC will recover, through the DSM/EE rider, all reasonable and prudent Program Costs reasonably and appropriately estimated to be incurred in expenses, during the current rate period, for DSM and

EE Programs that have been approved by the Commission, as well as any of DEC's reasonable and prudent O&M Program Costs to the extent those costs are intended to produce future benefits.

The Company's DSM/EE rider will reflect the difference between the reasonable and prudent Program Costs incurred during the applicable test period and the revenues actually realized during such test period under the DSM/EE rider then in effect. The cost and expense information filed by DEC will be categorized by Measurement Unit or Program, as applicable, and period, consistent with the presentation included in the Company's application.

J. Net Lost Revenues (NLR)

DEC shall be permitted to recover, through the DSM/EE rider, NLR associated with the implementation of approved DSM and EE Measure Units or Programs, subject to the restrictions set out below.

The South Carolina retail kWh sales reductions that result from an approved Measurement Unit installed in a given Vintage Year will be eligible for use in calculating Net Lost Revenues eligible for recovery only for the first 36 months after the installation of the Measurement Unit. Thereafter, such kWh sales reductions will not be eligible for calculating recoverable Net Lost Revenues for that or any other Vintage Year.

Programs or Measures with the primary purpose of promoting general awareness and education of EE and DSM activities, as well as research and development activities, are ineligible for the recovery of Net Lost Revenues.

In order to recover estimated NLR associated with a Pilot Program or Measure, DEC must, in its application for program or measure approval, demonstrate (a) that the program or measure is of a type that is intended to be developed into a full-scale, Commission-approved program or measure, and (b) that it will implement an EM&V plan based on industry-accepted protocols for the program or measure. No pilot program or measure will be eligible for NLR recovery upon true-

up unless it (a) is ultimately proven to have been cost-effective, and (b) is developed into a full-scale, commercialized program.

Notwithstanding the allowance of 36 months' Net Lost Revenues associated with eligible kWh sales reductions, the kWh sales reductions that result from Measurement Units installed will cease being eligible for use in calculating Net Lost Revenues as of the effective date of (a) a Commission-approved alternative recovery Mechanism that accounts for the eligible Net Lost Revenues associated with eligible kWh sales reductions, or (b) the implementation of new rates approved by the Commission in a general rate case or comparable proceeding to the extent the rates set in the general rate case or comparable proceeding are set to explicitly or implicitly recover the Net Lost Revenues associated with those kWh sales reductions.

Recoverable NLR shall be calculated in a manner that appropriately reflects the incremental revenue losses suffered by the Company associated with South Carolina customer participation in programs, net of avoided fuel and non-fuel variable O&M expenses.

Overall recoverable Net Lost Revenues as measured for the 36-month period identified in the paragraph above will be reduced by any increases in Net Found Revenues during the same periods (offset by any negative found revenues found appropriate and reasonable by the Commission). The "decision tree" attached hereto as Appendix C should be applied for determining what constitutes Net Found Revenues. DEC shall closely monitor its utility activities to determine if they are causing a customer to increase demand or consumption, and shall identify and track all such activities with the aid of the "decision tree," so that they may be evaluated by intervening parties and the Commission as potential Net Found Revenues. Net Found Revenues shall be calculated in an appropriate and reasonable manner that mirrors the calculation used to determine NLR.

Recoverable Net Lost Revenues will ultimately be based on kWh sales reductions and kW savings verified by the EM&V process and approved by the Commission. Under the Company's plan, Recoverable Net Lost Revenues will be estimated and trued-up, on a Vintage Year basis, in the following manner:

As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEC further requests approval to recover the appropriate and reasonable level of recoverable Net Lost Revenues associated with each applicable program and Vintage Year (subject to the limitations set forth in this Mechanism), estimated to be experienced during the rate period for which the DSM/EE rider is being set.

Net Lost Revenues related to any given program/measure and Vintage Year will be trued-up through the DSM/EE rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year. The true-up will be based on verified savings and will be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

The true-up will be calculated based on the difference between projected and actual recoverable Net Lost Revenues for each Program and period under consideration, accounting for any differences derived from the completed and reviewed EM&V studies, including: (1) the projected and actual number of installations per Measurement Unit; (2) the projected and actual net kilowatt-hour (kWh) and kilowatt (kW) savings per installation; (3) the projected and actual gross lost revenues per kWh and kW saved; and (4) the projected and actual deductions from gross lost revenues per kWh and kW saved.

The reduction in Net Lost Revenues due to Net Found Revenues (offset by any approved and applicable negative found revenue) will be trued up in a manner consistent with the true-up of NLR.

The combined total of all Vintage Year true-ups calculated in a given year's DSM/EE cost recovery proceeding will be incorporated into the appropriate Vintage Year DSM/EE billing factor.

K. Portfolio Performance Incentive (PPI) and Program Return Incentive (PRI)

DEC will collect a PPI and PRI, as each is applicable, for its DSM/EE portfolio for each Vintage Year, separable into Residential, Non-Residential DSM, and Non-Residential EE categories. The PPI and PRI, as applicable, shall be subject to the restrictions set out below. Programs, Measures, and activities undertaken by DEC with the primary purpose of promoting general awareness of and education about EE and DSM activities, as well as research and development activities, that are not directly associated with a Commission approved EE or DSM Program, are eligible to be included in the portfolio for purposes of the PPI or PRI calculations.

Unless (a) the Commission approves DEC's specific request that a pilot program or measure be eligible for PPI or PRI inclusion when DEC seeks approval of that program or measure, and (b) the pilot is ultimately commercialized, pilot programs or measures are ineligible for and the benefits and costs associated with those pilots will not be factored into the calculation of the PPI.

The PPI and PRI for each Vintage Year shall be incorporated into DEC's DSM/EE billing factors, as appropriate.

In its annual filing, DEC shall file an exhibit that indicates, for each Program or Measure for which it seeks a PPI or PRI, the annual projected and actual utility costs, participant costs, number of Measurement Units installed, per kW and kWh impacts for each Measurement Unit,

and per kW and kWh avoided costs for each Measurement Unit, consistent with the UCT, related to the applicable Vintage Year installations that it requests the Commission to approve. Upon its review, the Commission will make findings based on DEC's annual filing for each Program or Measure that is included in an estimated or trued-up PPI or PRI calculation for any given Vintage Year.

Low-Income Programs and other specified societal programs or other programs explicitly approved with expected UCT results less than 1.00 shall not be included in the portfolio for purposes of the PPI calculation until they demonstrate UCT results greater than 1.00. However, such programs will be eligible for the PRI, if so approved by the Commission, until they demonstrate UCT results greater than 1.00.

The proposed PPI will be based on the net dollar savings of DEC's DSM/EE portfolio, as calculated using the UCT. The South Carolina retail jurisdictional and class portions of the system-basis net dollar savings will be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

Unless the Commission determines otherwise in a DSM/EE rider proceeding, and subject to the factors and limitations set forth elsewhere in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PPI initially to be recovered in a Vintage Year for the entire DSM/EE portfolio for a Vintage Year, excluding Programs not eligible for a PPI, will be equal to 10.60% multiplied by the present value of the estimated net dollar savings associated with the DSM/EE portfolio installed in that Vintage Year, calculated by Program using the UCT (and excluding Low-Income Programs and other specified societal programs). The present value of the estimated net dollar savings will be the difference between the present value of the annual lifetime avoided cost savings for Measurement Units projected to be installed in that Vintage Year and the

present value of the annual lifetime program costs for those Measurement Units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year will be calculated by multiplying the number of each specific type of Measurement Unit projected to be installed in that Vintage Year by the most current estimates of each lifetime year's per installation kW and kWh savings and by the most current estimates of each lifetime year's per kW and kWh avoided costs. In calculating the forecasted initial PPI, it will be assumed that projections will be achieved.

Beginning with Vintage Year 2022, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up, shall be no greater than the dollar amount that produces a 19.50% margin over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI. Likewise, the dollar amount of the pre-tax PPI ultimately allowed for each Vintage Year, after true-up, shall be no less than the dollar amount that produces the following margins over the aggregate pre-tax Program Costs for the Vintage Year of those programs in the Portfolio that are eligible for the PPI.

Vintage Year 2022: 10.00%

Vintage Year 2023: 6.00%

Vintage Year 2024: 2.50%

Vintage Year 2025 and afterwards, until the next Mechanism review is completed: 2.50%

When making its initial estimates of the PPI pursuant to this Mechanism, DEC shall utilize the best and most accurate estimate of the margin and the resulting PPI percentage it can determine at that time.

The PRI shall be based on the gross avoided costs of those programs eligible for the PRI. The South Carolina retail jurisdictional and class portions of the system-basis gross dollar savings shall be determined in the same manner as utilized to determine the South Carolina retail jurisdictional and class portions of recoverable system costs.

Unless the Commission determines otherwise in an annual DSM/EE rider proceeding, and subject to the factors and limitations set forth in this Mechanism, beginning for Vintage Year 2022 the amount of the pre-income-tax PRI initially to be recovered for Low-Income Programs and other specified societal programs not eligible for a PPI shall be a percentage, as determined pursuant to this Mechanism, multiplied by the present value of the estimated gross dollar avoided cost savings associated with the applicable DSM/EE Programs installed in that Vintage Year, used in determination of the UCT. The present value of the estimated gross dollar savings shall be determined in the same manner as used for Programs eligible for the PPI.

The percentage used to determine the estimated PRI for each Vintage Year shall be 10.60%. This percentage will be multiplied by the present value of the estimated avoided costs associated with each PRI-eligible program installed in that Vintage Year. When making its initial estimates of the PRI, DEC shall utilize the best and most accurate estimate of the UCT and the resulting PRI percentage it can determine at that time.

For the PPI and PRI for Vintage Years 2022 and afterwards, the program-specific per kW avoided capacity benefits and per kWh avoided energy benefits used for the initial estimate of the PPI and PRI and any PPI or PRI true-up will be derived from the underlying resource plan, production cost model, and cost inputs that generated the avoided capacity and avoided energy credits reflected in the most recent Commission-approved avoided costs.

The per kW avoided transmission and distribution ("T&D") costs used to calculate net savings for a Vintage Year will be based on the study update at least every two years only if the study update results in a 20% change from the prior study's avoided T&D costs.

Unless DEC and the Office of Regulatory Staff ("ORS") agree otherwise, the Company will not be allowed to update its avoided capacity costs and avoided energy costs after filing its

annual cost and incentive recovery application for purposes of determining the DSM/EE and rider in that proceeding.

When DEC files for its annual DSM/EE cost recovery request, it will report all measurement and verification data, even if that data is not final, to assist the Commission and the ORS in their review and monitoring of the impacts of the DSM and EE Measures.

DEC bears the burden of proving all dollar savings and costs included in calculating the PPI and PRI. DEC shall be responsible for the EM&V of energy and peak demand savings consistent with its EM&V plan.

The PPI and PRI for each Vintage Year will ultimately be based on net dollar savings (PPI), or gross dollar savings (PRI) as verified by the EM&V process and approved by the Commission. The PPI and PRI for each Vintage Year will be trued-up as follows:

As part of the DSM/EE rider approved in each annual cost and incentive recovery proceeding, DEC will be allowed to recover an appropriately and reasonably estimated PPI and PRI (subject to the limitations set forth in this Mechanism) associated with the Vintage year covered by the rate period in which the DSM/EE rider is to be in effect.

The PPI and PRI related to any given Vintage Year will be trued-up through the DSM/EE rider in subsequent annual cost and incentive recovery proceedings based on the Commission-approved results of the appropriate EM&V studies related to the program/measure and Vintage Year, as determined pursuant to the EM&V Agreement. The true-up will be based on verified savings and will be applied to prospective and past time periods in accordance with the Evaluation, Measurement, and Verification section of this Mechanism.

The amount of the PPI ultimately to be recovered for a given Vintage Year will be based on the present value of the actual net dollar savings derived from all Measurement Units installed

in that Vintage Year, as associated with each DSM/EE program offered during that year (excluding Low-Income Programs and other specified societal programs), and calculated by DSM/EE program using the UCT. The present value of the actual net dollar savings will be the difference between the present value of the annual lifetime avoided cost savings for measurement units installed in that Vintage Year and the present value of the annual lifetime program costs for those measurement units. The annual lifetime avoided cost savings for Measurement Units installed in the applicable Vintage Year will be calculated by multiplying the number of each specific type of Measurement Unit installed in that Vintage Year by each lifetime year's per installation kW and kWh savings (as verified by the appropriate EM&V study pursuant to the EM&V agreement) and by each lifetime year's per kW and kWh avoided costs as determined when calculating the initially estimated PPI for the Vintage Year. The ultimate PPI will also be subject to the additional factors and limitations set forth in this Mechanism. DEC will make all reasonable efforts to ensure that all vintages are fully trued up within 24 months of the vintage program year.

The amount of the PRI ultimately to be recovered for a given Vintage Year shall be based on the present value of the actual gross dollar savings derived from all Measurement Units installed in that Vintage Year, as associated with each DSM/EE program offered during that year that is eligible for the PRI. Furthermore, the percentage used to determine the final PRI for each Vintage Year will be based on the Company's ability to maintain or improve the cost effectiveness of the PRI-eligible programs. The PRI percentage for each PRI-eligible Program will be determined by comparing (1) the projected UCT ratio for the portfolio of PRI-eligible Programs for the Vintage Year at the time of the Company's DSM Rider filing first estimating that projected Vintage Year UCT ratio to (2) the actual UCT ratio achieved for that portfolio of PRI-eligible Programs as that Vintage Year is trued up in future filings. The ratio ($UCT_{\text{actual}} / UCT_{\text{estimate}}$) will then be multiplied

by 10.60% to determine the PRI percentage that will be applied to the actual avoided costs generated by each approved PRI-eligible program. At no time will the PRI percentage utilized fall below 2.65% or rise above 13.25%. The present value of the estimated gross dollar savings shall be determined in the same manner as used for determining the recovery of the ultimate PPI. The ultimate PRI will also be subject to the additional factors and limitations set forth in this Mechanism. DEC will make all reasonable efforts to ensure that all vintages are fully trued-up within 24 months of the vintage program year.

A Program's eligibility for a PPI or PRI will be determined at the time of filing the projection for a Vintage Year and will continue to be eligible for the same incentive at the time of the Vintage Year true-up.

If a Program previously eligible for a PRI becomes cost effective under the UCT, it will no longer be eligible to receive a PRI in the next projected Vintage Year for the Program, but will be eligible for the PPI.

The combined total of all Vintage Year true-ups of the PPI and PRI calculated in a given year's DSM/EE cost recovery proceeding will be incorporated into the appropriate DSM/EE billing factor.

The PRI will be determined using the gross avoided costs used in the calculation of the UCT. PRI amounts will be assigned to the Program in which they were earned.

The PPI for each Vintage Year will be allocated to DSM and EE Programs in proportion to the present value net dollar savings of each Program for the vintage year, as calculated pursuant to the method described herein.

L. Other Incentives

As further incentive to motivate the Company to aggressively pursue savings from cost-effective EE and DSM Programs, if the Company achieves annual energy savings of 1.0% of the

prior year's DEC system retail electricity sales in any year during the four-year 2022-2025 period, the Company will receive an additional incentive of \$100,000 for that year. During that same period, if the Company fails to achieve annual energy savings of 0.5% of retail sales, net of sales associated with customers opting out of the Company's EE programs, the Company will reduce its EE revenue requirement by \$100,000. Verification of this achievement will be obtained through the EM&V process discussed elsewhere in this Mechanism.

M. Review of Mechanism

The terms and conditions of this Mechanism will be reviewed by the Commission every four years unless otherwise ordered by the Commission. However, any party may request the Commission to initiate such a review at any time within the four-year period. The Company will submit any proposed changes to the Mechanism to the Commission for approval at the time of the filing of the Company's annual DSM/EE rider filing. During the time of review, DEC requests that the Mechanism remain in effect until further order of the Commission revising the terms of the Mechanism or taking such other action as the Commission may deem appropriate.

N. Term

This Mechanism will continue until terminated pursuant to order of the Commission.

O. Matters Occurring Subsequent to the Filing of the Application

The terms of this Mechanism, including the methods and results of determining the PPI, PRI, and other Incentives, shall not be considered precedential for any purpose other than their application to eligible DSM/EE Programs and cost and utility incentive recovery associated with those Programs, and only until those terms are next partially or wholly reviewed.

Appendix C

Net Found Revenues Evaluation

A “decision tree” will be used to evaluate whether activities that may directly or indirectly result in increases in customer demand or energy consumption should be designated by the Company as producing “found revenues” and either filed with the Commission for a determination of their status or reported to the Commission for consideration at its discretion. The Company will create a list of all Duke Energy Carolinas’ activities that may produce found revenues by directly or indirectly resulting in an increase in customer demand or energy consumption within the Company’s service territory, followed by the elimination, or “filtering out,” of activities that meet certain criteria. More specifically, an activity will be eliminated from the list if it meets one or more of the following criteria (the tree itself should be referred to for the precise language of each filter):

- (1) The increase in customer demand or energy consumption would have occurred regardless of the activity.
- (2) The increase is the result of a new customer account’s participation in certain Duke Energy Carolinas economic development activities that have been found by the Commission not to result in found revenues.
- (3) The activity is conducted at the unsolicited request of a governmental unit for the purposes of growing the economy, creating jobs, or enhancing sustainability in the region.

If an activity is not eliminated for consideration by one of these filters, Duke Energy Carolinas will then evaluate whether the related increase in customer demand or energy consumption is a direct or proximate result of the activity. If it is determined to be so, the Company will designate the activity as one producing found revenues or submit it to the Commission for

determination; if not, the Company may presume that the activity does not produce found revenues but will report it to the Commission as part of its annual DSM/EE cost recovery filing. A visual representation of the “decision tree” process follows on the next page.

